

THE EFFECTIVENESS OF UNITED STATES COAST GUARD
PARTICIPATION IN THE DEPARTMENT OF TRANSPORTATION 8(A)
PILOT PROGRAM(U) NAVAL POSTGRADUATE SCHOOL MONTEREY CA
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THESIS

THE EFFECTIVENESS OF UNITED STATES COAST
GUARD PARTICIPATION IN THE DEPARTMENT OF
TRANSPORTATION 8(A) PILOT PROGRAM

by

Joel Dennis Fujiwara

June 1987

Thesis Advisor:

Raymond W. Smith

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<p>Section 8(a) of the Small Business Act authorizes the Small Business Administration (SBA) to engage in procurement contracts with federal agencies for the purpose of subcontracting to small business firms on a non-competitive basis. This authority exists to assist socially and economically disadvantaged small businesses in establishing a competitive position within the financial marketplace.</p> <p>From 1983 to 1985, the Department of Transportation participated in an experimental 8(a) program known as the 8(a) pilot program. This program attempted to develop procurement opportunities for 8(a) firms in new areas which involved high-technology or large dollar values (over \$1 million).</p>					
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The Effectiveness of United States Coast Guard Participation
in the Department of Transportation 8(a) Pilot Program

by

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ABSTRACT

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From 1983 to 1985, the Department of Transportation (DOT) participated in an experimental 8(a) program known as the 8(a) pilot program. This program attempted to develop procurement opportunities for 8(a) firms in new areas which involved high-technology or large dollar values (over \$1 million).

This thesis attempts to evaluate the effectiveness of U.S. Coast Guard participation in the DOT 8(a) pilot program. Specifically, it evaluates to what degree Coast Guard procurements within the 8(a) pilot program achieved overall program objectives. (Theses),
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I. INTRODUCTION

Section 8(a) of the Small Business Act has been in existence for nearly 35 years. During this time, Section 8(a) authority has evolved from a lengthy period of non-use to become a significant procurement tool in the field of federal acquisition.

Section 8(a) of the Small Business Act authorizes the Small Business Administration (SBA) to engage in procurement contracts with federal agencies for the purpose of subcontracting to small business firms on a non-competitive basis. This authority exists to assist socially and economically disadvantaged small businesses in establishing a competitive position within the financial marketplace. [Ref. 1:p. 38]

On 30 September 1983, President Reagan designated the Department of Transportation (DOT) as the agency to participate in an 8(a) pilot program designed to enhance specific types of 8(a) procurement opportunities. The program ran from October 1983 to September 1985. The DOT became the second agency to actually participate in a pilot program. The U.S. Army participated in an 8(a)pilot program from 1979 to 1981.

Differences exist between the regular 8(a) and the pilot 8(a) program. In the regular 8(a) program, federal agencies

volunteer procurement opportunities or the SBA may request opportunities to be awarded to qualified 8(a) contractors. In contrast, the SBA holds significant authority to demand 8(a) procurements from the agency under the pilot program. The pilot program emphasized certain types of 8(a) procurements, specifically those requiring high-technology or those of large dollar values. [Ref. 2:p. 62]

The General Accounting Office published a report in January of 1981 which evaluated the Army's pilot program. A similar study of the DOT's pilot program has not been conducted as of the date of this thesis submission.

A. OBJECTIVE OF THE RESEARCH

This thesis attempts to evaluate the effectiveness of U.S. Coast Guard participation in the DOT pilot program. Specifically it evaluates to what degree Coast Guard procurements within the pilot program achieved overall program objectives.

B. RESEARCH QUESTIONS

1. Primary Research Question

The accompanying research focuses on answering the following question: How effective was U.S. Coast Guard participation in the DOT 8(a) pilot program?

2. Subsidiary Research Questions

The following subsidiary research questions guided the organization of this research effort.

- a. What is the 8(a) procurement program?
- b. How does the 8(a) pilot program differ from the regular 8(a) program?
- c. What were the objectives of the DOT 8(a) pilot program?
- d. What factors led to the success or failure of the pilot program with respect to Coast Guard 8(a) contracts during the implementation period?

C. SCOPE AND LIMITATIONS

Although the DOT pilot program encompassed all agencies within the department, this research is limited to Coast Guard participation in the program.

Initially, the study describes the 8(a) procurement program in general terms. It looks briefly at the program's historical background and its purpose. Secondly, the study describes the original implementation of the program with the U.S. Army. It examines the cited deficiencies of the program and the measures taken to prevent these from occurring in the second pilot program with the DOT. Next, the study focuses on the objectives of the DOT 8(a) pilot program.

Finally, an in-depth evaluation occurs to determine to what degree Coast Guard procurements within the pilot program achieved the stated objectives of the program and what lessons can be learned from this participation.

D. METHODOLOGY

The researcher used the following methodology.

1. Examine goals of the original 8(a) pilot program.
2. Determine shortcomings of the original 8(a) pilot program.
3. Determine measures taken to correct the shortcomings prior to implementation of the DOT 8(a) pilot program.
4. Establish criteria for evaluating the effectiveness of Coast Guard participation in the program.
5. Examine the seven Coast Guard procurements which occurred under the pilot program.
6. Determine to what degree these seven procurements achieved stated program objectives.
7. Identify positive and negative attributes of these procurements for use as criteria in the selection of future 8(a) contracts.

E. COMPILATION OF DATA

Data collected for the accompanying research required a three step approach. First, the researcher conducted a literature review with the assistance of a Custom Bibliography compiled by the Defense Logistics Studies Information Exchange, Fort Lee, Virginia and a computer search completed by the Naval Postgraduate School library. Then the researcher made trips to San Francisco, California and Washington, D.C. to personally interview Coast Guard and SBA officials involved in the 8(a) program. Finally, the researcher conducted phone interviews with the cognizant contracting officers of 8(a) awards under the pilot program.

F. BENEFITS OF THE STUDY

The end result of this research provides a potential management guide for more objectively evaluating 8(a) contracts prior to award. More specific criteria will be available to contracting officers in an attempt to increase the probability of successful 8(a) procurements.

II. KEY ELEMENTS

This chapter provides some basic definitions necessary for the reader to understand before proceeding. It also describes some of the key organizations involved in the 8(a) pilot program.

A. SMALL BUSINESS

8(a) procurements are a subset of small business programs, and therefore a definition of small business is a logical starting point for further development. The definition of a "small business concern" is contained in 15 USC 632(a). It is "one which is not dominant in its field of operation." [Ref. 3:p. 6] The SBA Rules and Regulations (13 CFR 121.4) sets size standards according to the Standard Industrial Code Manual. For a majority of industries the maximum limit is 500 employees or \$1 million in sales per year.

Revised size standards were issued by the SBA in 1984 to deal with the effects of inflation, among other things. The amended legislation in a departure from prior SBA practice, provides a single set of size standards for both procurement and financial assistance programs. [Ref. 4:p. 6] Size standards are stated either by average annual receipts or number of employees. Since size standards are on a standard industrial classification code basis, a company may be a small business for one type of contract but not another. [Ref. 5:p. 6]

The regulations also discourage firms from dividing into smaller segments or being linked as affiliates in order to

reap the benefits of small business status although not actually qualified.

B. THE SMALL BUSINESS ADMINISTRATION

The SBA is the principal agency responsible for the economic welfare of small and disadvantaged businesses in the United States.

The fundamental purposes of the Small Business Administration (SBA) are to aid, counsel, assist, and protect the interests of small business; ensure that small business concerns receive a fair portion of Government purchases, contracts and subcontracts, as well as of the sales of Government property; make loans to small business concerns, State and local development companies, and the victims of floods or other catastrophes, or of certain types of economic injury; and license, regulate and make loans to small business investment companies. [Ref. 6:p. 632]

1. Organization

The SBA is an independent agency of the Executive Branch of the United States Government. It is headed by a single administrator who answers directly to the President. The SBA is organized in three ways--by geography, by function and by clientele. [Ref. 7:p. 16] Geographically, there are 10 regional SBA offices throughout the country with a headquarters in Washington D.C. The 10 SBA regions are further subdivided into districts. Functionally, SBA headquarters and each regional office is divided according to the various types of services offered, as explained in the next paragraph. By clientele, the SBA administers its programs according to the various socio-economic groups it

serves such as minorities, women, handicapped or regular small business.

2. Responsibility

The SBA assists small businesses in five basic ways.

- a. Financial Assistance
- b. Investment Assistance
- c. Business Development
- d. Procurement Assistance
- e. Minority Small Business/Capital Ownership Development.

The final category encompasses administration of the 8(a) program.

C. THE 8(A) PROGRAM

Section 8(a) of the Small Business Act as amended by Public Law 95-507 provides the statutory basis for the Minority Small Business and Capital Ownership Development Program commonly known as the 8(a) program. [Ref. 8:p. 14]

1. Purpose

The program exists to "foster business ownership by individuals who are both socially and economically disadvantaged" and to promote competitive viability of such firms by providing such available contract, financial, technical and management assistance as may be necessary." [Ref. 9:p. 14] Congress found that in order to further the economic efficiency and equality of this country, it was necessary to devote special attention to small business firms owned or controlled by disadvantaged individuals.

2. Implementation

The SBA accomplishes its 8(a) program goals and objectives by contracting with federal departments and agencies for a wide variety of requirements. The SBA functions as the point of coordination for matching the requirements of federal agencies with the capabilities of eligible 8(a) contractors. In some cases the federal agency will volunteer a new requirement and allow the SBA to locate an 8(a) firm capable of fulfilling that requirement. In other cases, the federal agency may specify the award of a contract to a particular 8(a) firm based upon past experience with the firm. In still other cases, the SBA, upon learning of an upcoming requirement from a federal agency, may request the requirement be assigned to an 8(a) contractor. The SBA Standard Operating Procedure (SOP) outlines basic guidelines to be followed but is not binding on SBA officials as if it were a regulation. [Ref. 10:p. 15]

A federal agency awards an 8(a) contract to the SBA without competition. The SBA then subcontracts the requirement to an 8(a) firm again without competition. [Ref. 11:p. 15] Once the subcontractor is identified limited involvement from the SBA occurs. Price negotiation and matters of contract performance take place directly between the procuring agency and the 8(a) firm. "In fact, it has been held that this scheme results in privity of

contract between the procuring agency and the 8(a) subcontractor." [Ref. 12:p. 15]

In the event of a disagreement between the agency and the SBA over either the selection of a requirement for the program or the terms and conditions of the potential award, the head of the procuring agency retains the authority to make a final decision. [Ref. 13:p. 62]

3. Eligibility

A firm must meet four major statutory eligibility requirements before it can be admitted to the 8(a) program. These include:

- a. Qualification as a small business.
- b. Ownership by socially and economically disadvantaged individuals.
- c. Control and operation by socially and economically disadvantaged individuals.
- d. Passing a subjective determination of success in the private sector.

The first requirement refers to the size standards specified earlier in this chapter. The second requirement states that the firm must also validate that it is 51 percent or more controlled and operated by socially and economically disadvantaged individuals. [Ref. 14]

Socially disadvantaged individuals are "those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as members of a group without regard to their individual qualities." [Ref. 15]

Individuals who are black, Hispanic Americans, native Americans or Asian Pacific Americans automatically qualify

as socially disadvantaged unless evidence to the contrary can be shown.

Other individuals who are not a member of one of these groups may still qualify as socially disadvantaged if they can positively demonstrate that due to some form of social disadvantage (e.g., color, national origin, gender, physical handicap) they are not able to compete fairly in the business world.

Economically disadvantaged individuals are those socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished credit and capital opportunities as compared to others in the same business area who are not socially disadvantaged individuals in making its economic disadvantage determination. [Ref. 16]

The third requirement necessitates that the firm be 51 percent controlled and operated by the same socially and economically disadvantaged individuals cited in the second requirement. The second and third requirements are closely connected to prevent the apparent ownership by an individual for appearances only and who possesses no control over the firm's operations. These "front" operations allow non-eligible individuals to enjoy the benefits of the 8(a) program.

The fourth requirement involves a subjective determination by the SBA which evaluates the potential success of an applicant firm. The SBA examines factors such as contract, financial, technical and management support in addition to comparing the applicant to other firms already

in the same business field. [Ref. 17] This requirement conflicts somewhat with the second requirement.

The "Catch 22" of obtaining entry to the program is demonstrating both economic disadvantage and a reasonable prospect for success. Stated otherwise, to obtain program entry an applicant must simultaneously demonstrate that it is economically disadvantaged, but not too economically disadvantaged. [Ref. 18:p. 15]

There are also additional eligibility requirements relating to individual character review, standards of conduct, reinstatement of partial eligibility and certification that the firm is a manufacturer or regular dealer as defined in the Walsh-Healy Public Contracts Act Regulations (48 CFR 22.6). These additional requirements are covered in the SBA Rules and Regulations (13 CFR 124.108).

4. Length of Participation, Termination

Ideally firms remain in the 8(a) program until they can demonstrate their ability to compete without assistance at which time they graduate. [Ref. 18:p. 16] Historically most 8(a) firms have remained in the program as long as permissible to take advantage of program benefits. [Ref. 17]

A 1980 amendment to the Small Business Act implemented the establishment of a Fixed Program Participation Term (FPPT) for all 8(a) contractors. [Ref. 18:p. 16] The SBA negotiates the FPPT with each 8(a) firm prior to acceptance into the program. The FPPT may not exceed five years with a possible two year extension.

Application for the extension must be made prior to the beginning of the fifth year.

A firm may graduate from the 8(a) program prior to the end of the FPPT if the goals of its business plan are met which includes the ability to compete in the business environment without assistance.

In addition, a firm may be terminated from the program "for good cause" such as failure to meet 8(a) eligibility standards, inadequate performance of 8(a) contracts, and unauthorized use of an advance payment or business development expense. [Ref. 19]

5. Advance Payments

8(a) firms may qualify for advance payments to provide interest free financing prior to actual contract performance. The SBA provides advance payment funding which is then liquidated as the firm receives payments for work completed.

The SBA's routine award of advance payments to 8(a) concerns drew wide criticism in the late 1970s. Federal investigators discovered that these interest-free loans were being used for purposes other than financing contract performance. In one highly celebrated case they were allegedly used to purchase a racehorse. [Ref. 20:p. 15]

6. Business Development Expense

The Business Development Expense (BDE) is a unique concept of the 8(a) program. The SBA provides BDE as an outright grant of funds to an 8(a) firm in assisting with the performance of a contract. Small Business Administration approval of a firm's written request must occur prior to the granting of BDE which is provided for three specific purposes. [Ref. 21]

- a. Purchase of capital equipment necessary to perform a specific contract.
- b. Purchase of other capital improvements or production/technical assets necessary to perform a specific contract. Examples of items in this category include quality control systems, inventory control systems and other business systems.
- c. Compensate for a price differential which exists between the government's determination of a fair and reasonable price and the price proposed by the 8(a) firm to provide a particular good or service. "This type of BDE should be granted to a firm only one time for any specific type of requirement and only if the analysis demonstrates that the firm will be able to produce the item/service competitively in the future." [Ref. 21]

The SBA prohibits the use of BDE for cost overruns, entertainment expenses or where financing from outside sources is reasonably available.

D. THE DEPARTMENT OF TRANSPORTATION

"The Department of Transportation (DOT) establishes the Nation's overall transportation policy." [Ref. 6:p. 417]
This includes highway planning, development and construction; urban mass transit; railroads; aviation; and the safety of waterways, ports, highways and oil and gas pipelines. [Ref. 6:p. 417]

1. Organization

There are nine different administrations and the Office of the Secretary (OST) contained under the DOT.

- a. U.S. Coast Guard
- b. Federal Aviation Administration
- c. Federal Highway Administration

- d. Federal Railroad Administration
- e. National Highway Traffic Safety Administration
- f. Urban Mass Transportation Administration
- g. Maritime Administration
- h. Saint Lawrence Seaway Development Corporation
- i. Research and Special Programs Administration.

The heads of these nine administrations report directly to the Secretary of Transportation with headquarters in Washington, D.C. They possess highly decentralized authority due to the diverse nature of their responsibilities. [Ref. 6:p. 417]

2. Office of Small and Disadvantaged Business Utilization

The Office of Small and Disadvantaged Business Utilization operates under OST as mandated by Public Law 95-507. [Ref. 6:p. 419] It is responsible for establishing Departmental policy and guidance consistent with applicable federal statutes which relate to procurement and financial assistance activities involving minority, women-owned and small and disadvantaged businesses. [Ref. 6:p. 419] This office works directly with the SBA in establishing departmental goals for the above business programs. It also serves as a liaison between the SBA and the Small and Disadvantaged Business Utilization programs of the nine different DOT administrations.

E. UNITED STATES COAST GUARD

The U.S. Coast Guard is one of the branches of the armed forces and functions as one of the nine administrations under the DOT except in time of war or national emergency when it becomes part of the U.S. Navy. Approximately 39,000 military personnel and 5,000 civilians are employed by the Coast Guard which operates ships, aircraft and shore facilities in the United States and throughout the world. The Coast Guard holds responsibility for many missions including search and rescue, maritime law enforcement, commercial vessel safety, marine environmental protection, aids to navigation, ice operations, boating safety and military readiness.

1. Organization

Coast Guard headquarters is located in Washington, D.C. In early 1987, the commandant, Admiral Paul E. Yost Jr. approved a new realignment concept which recently went into effect. The realignment attempts to produce a more efficient support organization while at the same time providing more billets for increased operational capability. [Ref. 22:pp. 13-14]

The new organization incorporates two Regional Maintenance and Logistics Commands (RMLC), one in Alameda, California and one in Governors Island, New York which provide primary support in the areas of finance, personnel, health services, legal and technical (engineering). This

support is extended to the various shore and afloat units under the operational control of 10 district offices geographically located throughout the country. In addition, two area offices, colocated with each of the RMLCs, assume responsibility for larger floating units (over 180 feet) and missions involving resources from two or more districts. [Ref. 22:pp. 14-16]

2. Procurement Process

The Coast Guard procurement process takes place at a variety of different levels. The RMLCs handle most of the procurements under \$100,000 relating to vessel or shore support and operating funds. The Facility Design and Construction Centers in Seattle, Washington and Norfolk, Virginia handle construction contracts exceeding \$100,000. [Ref. 22:p. 16] Most other major procurements over \$100,000 are handled by the Office of Acquisition at Coast Guard headquarters.

Table 1 displays the amount of dollars spent on Coast Guard procurements per fiscal year as estimated by the GAO. This information is compared to the total Coast Guard budget authority for the same fiscal year.

3. 8(A) Procurement Goals

Each fiscal year the Coast Guard negotiates socio-economic program goals including those for the 8(a) program with OST. These goals are established according to the projected operating budget for the fiscal year. Coast Guard

TABLE 1

U.S. COAST GUARD BUDGET AUTHORITY AND PROCUREMENT DOLLARS
(IN BILLIONS OF DOLLARS)

<u>Fiscal Year</u>	<u>Budget Authority</u>	<u>Procurement Authority</u>
1982	2.5	1.4
1984	2.8	1.5
1986	2.5	1.1
1988	2.6	1.05

Source: General Accounting Office, GAO/RCED 85-144,
GAO's Analysis of Audit and Investigative
Reports Concerning U.S. Coast Guard Procure-
ments, 16 July 1985

headquarters then apportions goals to the individual commands with procurement authority again proportional to the individual operating budgets. Table 2 shows the 8(a) goals established and the actual amounts attained for FY-82 through FY-86.

TABLE 2

8(A) PROCUREMENT GOALS AND LEVEL OF ACHIEVEMENT
(IN MILLIONS OF DOLLARS)

<u>Fiscal Year</u>	<u>Procurement Goal</u>	<u>Level Achieved</u>
1982	22.5	29.1
1983	34.9	45.2
1984	45.0	54.8
1985	55.0	57.0
1986	52.0	67.8

Source: U.S. Coast Guard Headquarters, Washington,
D.C., Major Preference Reports, FY 82-FY 86

In comparing these figures to those of Table 1, the researcher noted the percentage of procurement dollars spent on 8(a) procurements rose from 2.0 percent in 1982 to 6.2 percent in 1986.

III. BACKGROUND

This chapter traces the development of the 8(a) program from its early historical beginnings to its present status in federal procurement. The background material provided allows the reader to gain a fundamental understanding of the 8(a) program and develop an insight for the pilot program.

A. WORLD WAR II

The 8(a) program derives its authority from the development of the basic concepts of small business in the United States. Initial concern for the interests of small business first occurred during World War II when the United States government was busily preparing for an extended engagement and encouraged cooperation from small businesses in aiding its war effort. Public Law 603, enacted on 11 June 1942, officially recognized special attention directed toward small business.

Pub. L. 603 created the Smaller War Plants Corporation, which had broad authority to contract with the United States Government to furnish goods and services and to arrange for the performance of these contracts by assigning subcontracts "as the Corporation may deem appropriate" to small business concerns or others. [Ref. 2:p. 61]

In essence, the Smaller War Plants Corporation became the contractor for various government agencies requiring the purchase of equipment, supplies and materials for the war

effort. The Corporation subcontracted to small business firms for the manufacture, supply or assembly of the required items. [Ref. 1:p. 22] During this time 260 subcontracts were awarded to small business firms at a total value of \$35.5 million. [Ref. 23:p. 407]

Following the war, Congress continued to express an interest in fostering small business participation in the federal procurement arena. The Armed Services Procurement Act of 1947, the Federal Property and Administrative Services Act of 1949 and the Defense Production Act of 1950 all included provisions to ensure small business received a fair share of government contracts. [Ref. 7:p. 16]

B. KOREAN CONFLICT

The United States entrance into the Korean conflict in 1951 again created the need for small business firms to assist in the war effort. Emphasis was placed on meeting the military needs of the conflict without disrupting the civilian economy significantly which made small business participation vital [Ref. 1:p. 22]. The Defense Production Act amended in July 1951 once again authorized a special agency to coordinate small business participation in the war effort. The Act created the Small Defense Plants Administration (SDPA) which performed a role similar to the Smaller War Plants Corporation of World War II. [Ref. 7:p. 16]

In this Act, Congress mandated that small business firms receive a fair proportion of the total contract awards placed by government agencies. Also, the authority of the SDPA was expanded beyond procurements solely for the war effort. [Ref. 1:p. 23]

However, the effectiveness of the SDPA seemed to be very limited. During its tenure from 1951 to 1953 the SDPA only awarded seven contracts. [Ref. 23:p. 22]

C. ESTABLISHMENT OF THE SMALL BUSINESS ADMINISTRATION

Expanded recognition of small business interests occurred when Congress established the Small Business Administration (SBA) as part of Public Law 83-163 known as the Small Business Act of 1953. The SBA became the lead agency for the oversight and administration of all socio-economic programs in the United States. Unlike the SWPC and the SDPA, the SBA's authority included all federal procurement rather than just those related to national defense. The mission of the SBA was to foster the actual and potential capacity of small business firms through the promotion and expansion of free competition in order to protect the economic well-being of the country. [Ref. 1:pp. 23-24]

Section 8(a) authority also appeared for the first time as a result of PL 83-163. This authority allowed the SBA to contract with federal agencies in an attempt to reserve government requirements for small businesses.

Permanent recognition of the SBA did not actually occur until 1958 when Congress passed the amended Small Business Act of 1958 (PL 85-536).

The second Small Business Act established a permanent agency with traditional contracting authority. Section 8(a) of the statute allowed the SBA to act on behalf of small businesses by contracting with the United States and subcontracting to small business concerns without competition. The authority applied to all small businesses but was essentially unused. [Ref. 2:p. 62]

D. CIVIL RIGHTS MOVEMENT

Blending of the SBA's 8(a) authority and minority small business interests did not occur until the 1960s. In this decade civil rights issues became the focus of national attention. The economic development of minority groups received special scrutiny from Congress. This scrutiny resulted in the 1967 Amendment to the Economic Opportunity Act (PL 90-222) which mandated the use of government policies and programs to provide opportunities for low income individuals and families to obtain self sufficiency. The Act also mandated the SBA to play an important role by assisting small business firms (1) located in urban areas with high proportions of unemployed or low income individuals, or (2) owned by low-income individuals. [Ref. 24:p. 26]

Actual use of 8(a) authority resulted from the goals and objectives specified in President Johnson's Test Cities Program of October 1967. For the first time in nine years

the SBA elected to use its 8(a) authority for a specific purpose.

The program was aimed at providing jobs and training for the hard-core unemployed through the award of 8(a) subcontracts to both large and small business manufacturing firms. [Ref. 2:p. 26]

E. NEW ROLE OF THE 8(A) PROGRAM

The SBA subsequently reevaluated the objectives of its program and chose instead to concentrate its efforts on a broader, long term program of providing business ownership opportunities for minorities and low income wage earners. In 1970 the SBA issued new regulations which narrowed the purpose of the 8(a) program to providing assistance solely to small business firms owned or controlled by socially or economically disadvantaged persons. The SBA also established an Office of Minority Business Enterprise.

This new emphasis for the 8(a) program was reinforced by a series of three executive orders issued between 1969 and 1971. These executive orders all dealt with the subject of minority business enterprise and called for an increased awareness by all federal departments and agencies in assisting the economic development of minority businesses. The last one, Executive Order 11625 of 13 October 1971, subscribed to the SBA's definition of a minority business firm as being "one owned or controlled by socially or economically disadvantaged persons." [Ref. 1:p. 27]

F. PUBLIC LAW 95-507

Public Law 95-507 became the next significant event to affect the 8(a) program. Until its passage on 24 October 1978, no legislative basis existed for the 8(a) program. This lack of statutory control over the program is cited as one source of problems during the 10 year period of 8(a) program execution beginning in 1967. [Ref. 7:pp. 52-53]

Reports prepared by the General Accounting Office and investigations conducted by both the executive and legislative branches have disclosed that the 8(a) program has fallen far short of its goals to develop strong and growing disadvantaged small business. Only 33 of the more than 3,700 firms have both completed the 8(a) program and are known to have a positive net worth. (June 1980 data) [Ref. 7:p. 48]

Prior to PL 95-507, the SBA's authority was grounded solely in the executive orders signed by Presidents Nixon and Johnson. The SBA possesses limited clout to encourage active participation by federal departments and agencies. A coordinated system of establishing annual small business procurement goals including 8(a) procurements lacked any real form of statutory enforcement and was voluntary for the most part.

Public Law 95-507 established definite statutory legitimacy for the 8(a) program. [Ref. 7:p. 53] The language of the law clearly defined some existing ambiguities in the 8(a) program in an attempt to more fully achieve program goals for participants and eliminate abuses.

One of these abuses existed in the area defining eligibility for participants. PL 95-507 states that

participating firms must be at least 51 percent owned or controlled by a socially and economically disadvantaged individual. The law then goes on to define "socially and economically disadvantaged." This language attempted to prevent larger firms or individuals who were not minorities from establishing "fronts" to participate in the 8(a) program and enjoy its benefits without being eligible.

Public Law 95-507 also established a two year pilot program which gave the SBA increased authority over 8(a) procurement requirements transacted with a federal agency designated by the President of the United States. President Carter designated the Department of the Army as the first 8(a) pilot agency on 10 January 1979. A second pilot program involving the Department of Transportation began in 1983 as an extension of this authority mandated by PL 95-507.

IV. PILOT PROGRAMS

Public Law 95-507 created authorization for the SBA to engage in special 8(a) procurements under what are known as pilot programs. Two of these programs have been completed as of the time of this research. This chapter provides background information concerning these two programs and a summary of the results of the first pilot program.

A. UNITED STATES ARMY PILOT PROGRAM

After its designation in January of 1979 as the 8(a) pilot agency, the Army entered into negotiations with the SBA to formalize the terms and conditions of the program. A format agreement occurred four months later in May of 1979. [Ref. 25:p. i] The program was originally scheduled to terminate on 30 September 1980, but was extended an additional year with the passage of Public Law 96-481. In January of 1981, the General Accounting Office released an interim report evaluating the effectiveness of the Army's pilot program.

1. Purpose

"SBA's stated objective for the pilot program is to seek procurement opportunities which are not currently offered by the Army under the regular 8(a) program." [Ref. 25:p. ii] On 15 April 1980 SBA's Associate Administrator for Minority Small Business and Capital

Ownership Development issued guidance to regional SBA administrators concerning desired characteristics of pilot program procurements. These included requirements for:

- a. Sophistication/high technology
- b. Large dollars
- c. Multiyear/follow-on potential
- d. Commercial applications.

There seemed to be disparity between what the Army perceived as the purpose of the program and that of the SBA. While the SBA believed the purpose was to develop procurements in those areas listed above, the Army interpreted the purpose to be that of obtaining more procurements from an agency which had not previously supported the program. [Ref. 25:p. ii] Statistically, the Army led all federal agencies with the largest number of 8(a) procurements from fiscal year 1975 to fiscal year 1979. [Ref. 25:pp. 20-21]

2. General Accounting Office Case Studies

The GAO published their report in January of 1981. Up to that date, nine contracts were awarded. The GAO looked specifically at three of the contracts awarded prior to 30 May 1980 to measure the effectiveness of the program. This date represented the completion of GAO field work incorporated into the report.

The first two GAO investigated contracts involved a single procurement of 30 trailer-mounted water purification

units known as "reverse osmosis water purification units (ROWPUs)." One 8(a) firm received a contract to build the ROWPU trailers and frames for \$1.9 million. Another 8(a) firm received a contract to assemble the water purification units for \$5 million. [Ref. 25:p. 5]

The Army intended to place this contract in the regular 8(a) program until the SBA intervened and directed it to be assigned to the pilot program. The Army contracting officer responsible for this procurement stated the ROWPUs did not represent high-technology although there may be some follow-on potential. [Ref. 25:p. 5]

The 8(a) firm eventually selected for the assembly of the ROWPUs previously manufactured only electronic components. The ROWPU contract represented a line of work quite different from past efforts. The GAO questioned the selection of this contractor, stating:

In addition, the firm had been in the 8(a) program for nine years and has received \$4.8 million in 8(a) contracts, yet failed to make satisfactory progress--mostly due to questionable operating practices. If the firm has failed to progress before, it is questionable whether it will progress now even after receiving the ROWPU contract. [Ref. 25:p. 5]

The other 8(a) contract awarded in this procurement also involved a seemingly similar mismatch of the firm's capabilities with requirements of the contract. During its tenure in the 8(a) program, this firm traditionally repaired, installed and tested electronics and ordinance systems primarily in Naval vessels. The SBA's Los Angeles

district office believed this firm was ready to graduate from the program. The GAO stated, "Under these circumstances, we question why SBA awarded it a new contract in an entirely different field from its line of business." [Ref. 25:p. 6]

The third contract investigated by GAO involved the installation of insulation and storm windows at Fort Leonard Wood, Missouri for \$4 million. The Army originally offered this award as a regular 8(a) procurement, but it was rejected by the SBA. Then after a communications breakdown, the Army intended to award the requirement competitively. At the last instant, the SBA demanded this procurement under the terms and conditions of the pilot program.

The 8(a) firm selected for this award previously displayed questionable capacity to complete the required work. In a previous 8(a) contract awarded a year before the pilot program award, the firm failed to complete any work on a \$70,000 contract. The firm was essentially a one person operation with no equipment or trucks.

As it turned out, the firm intended to complete the contract as a joint venture with a non-8(a) firm. The GAO found that the non-8(a) subcontractor completed a majority of the work. [Ref. 25:p. 6]

3. General Accounting Office Findings

The GAO found that the objectives of the program were ill-conceived and not consistently applied. In the

interagency agreement which took four months to produce, specific objectives were not identified. Then the SBA narrowed the focus of its original objectives by specifying that large-dollar sophisticated procurements were more desirable than just identifying new opportunities not currently available under the existing 8(a) program.

Another GAO finding concluded that the SBA did not effectively implement the program with regard to matching the capabilities of 8(a) firms with procurement requirements. It stated:

- SBA lacks sufficient information on 8(a) firms' capabilities as well as procurement requirements to properly match firms to procurement requirements,
- SBA has awarded multimillion-dollar contracts to its 8(a) firms without internally assessing the firm's capabilities to perform, and
- PCRs have not been effective in identifying pilot projects. [Ref. 25:p. 17]

PCRs are Procurement Center Representatives assigned by the SBA to major Department of Defense procurement activities.

The GAO also felt that the SBA attempted to make the pilot program look statistically more successful than what actually occurred. The report states:

We believe that SBA, in assembling the list of 38 procurements, tried to make the pilot program look successful rather than to develop disadvantaged firms. Our review of the list showed that many of the 38 procurements were regular 8(a) program procurements arbitrarily picked for the pilot. SBA officials in the Office of Minority Small Business and Capital Ownership Development agreed with our analysis that many of these

procurements were regular 8(a)-type procurements.
[Ref. 25:p. 8]

4. Conclusions and Recommendations

Overall the GAO concluded that the first pilot program did not meet its stated objectives. The SBA failed to significantly improve procurement opportunities which were not currently available under the regular 8(a) program. [Ref. 25:p. 9] A report from the House of Representatives dated 3 February 1983 concluded that:

The first pilot program was not fully effective primarily due to the constant disagreement between the SBA and the Army about the type of contracts to be selected for inclusion in the pilot program. [Ref. 26:p. 64]

In its final recommendation to Congress, the GAO recommended amending the present legislation to authorize testing of a pilot program in another federal agency which displayed less than complete support for the 8(a) program. [Ref. 25:p. v]

5. Army Comments Concerning the Pilot Program

The Army generally concurred with the GAO's assessment of the pilot program. One of the Army's primary concerns stemmed from the "inability of the SBA to properly assess and match an 8(a) firm's capabilities with procurement opportunities." [Ref. 27]

The other concern dealt with the significant amount of time required to be dedicated to the pilot program during its implementation. The Army estimated 75 percent of all its administrative workload in the Office of the Director,

Small and Disadvantaged Business Utilization was required for the pilot program. In fiscal year 1980 only 15 percent of the administrative time could be devoted to regular 8(a) contracts yet their dollar value was \$273.4 million compared to \$19.3 million for pilot program contracts. [Ref. 27]

B. DEPARTMENT OF TRANSPORTATION PILOT PROGRAM

Following the recommendation by the GAO and others, Congress authorized the extension of the 8(a) pilot program with the passage of Public Law 98-47. President Reagan signed this legislation on 13 July 1983. The Law required the President to designate another federal agency within 60 days as the new 8(a) pilot agency. On 30 September 1983 President Reagan designated the DOT to participate in the second 8(a) Pilot Procurement Program. Appendix A contains a copy of this letter. This letter cites the DOT as having an excellent record with respect to the regular 8(a) program contrary to the GAO recommendation to test the pilot program in an agency which had not supported the program fully.

1. Initial DOT Attitude

Various internal memos reviewed by the researcher indicate an early reluctance to participate in the pilot program by many DOT officials including representatives from the Coast Guard, the Federal Aviation Administration and the Federal Highway Administration. Their reluctance seems to be based upon feedback received from the Army pilot experience.

The primary concern rested with the unilateral authority of the SBA to fulfill contract requirements. The various administrations of the DOT expressed a desire to participate in the determination process. Another concern dealt with the amount of extra administration time which the pilot program would require as cited in the Army's comments relating to the first pilot program. In addition, a question arose over whether the entire department would participate in the program or just a single administration such as the Coast Guard. Secretary Elizabeth Dole chose to have the entire department participate.

2. Implementation

The SBA assured the DOT that shortcomings of the initial pilot program could be corrected prior to implementation of the second pilot program. Specifically, the SBA supported the following concepts as the foundation for the program.

- a. Joint selection and evaluation of contractors.
- b. Established time standards for selection of contractors.
- c. Consultation with the necessary technical experts when SBA would be dealing with highly technical contracts.
- d. Mutually developed procedures for interagency implementation of the pilot program.
- e. SBA will not be arbitrary. [Ref. 28]

Appendix B contains a copy of the resultant interagency agreement negotiated between the two agencies. Overall, the agreement attempts to overcome identified

weaknesses of the first pilot program by providing much clearer detailing of specific responsibilities and procedures.

One of the key themes written into the agreement deals with ensuring a better matchup of the 8(a) firms' capabilities with the requirements of the contract. The agreement required substantial planning and forecasting data from the DOT to more precisely identify available requirements. Additionally, the agreement required the SBA to perform a more thorough analysis of potential 8(a) firms' technical and financial capabilities as well as past performance histories.

Another key provision of the agreement specifies procedures to be followed in the event of disagreements between the DOT and SBA. The SBA relinquished much of its unilateral authority in exchange for greater cooperation in the determination process. Section III(C) of the agreement specifically addresses the procedures to be followed in the event of a disagreement.

Section III(A)(6) of the agreement allows the DOT to refuse any pilot program contract if there is doubt as to the successful completion of that contract and that its completion is critical to a safe transportation system where public health or safety could be threatened.

3. Objectives

The objectives of the DOT pilot program were similar to those of the Army's pilot program. Specifically, there were four main objectives:

- a. To help the SBA secure 8(a) procurements for disadvantaged businesses.
- b. To help the SBA secure procurement opportunities not currently offered by DOT under the regular 8(a) program.
- c. To help secure requirements and award contracts that will make a contribution toward the development of the 8(a) firms that receive them.
- d. To help upgrade the quality of procurements available to participants in the 8(a) program. [Ref. 29]

To meet these objectives potential pilot procurements were to meet one or more of the following criteria.

- a. Involve research and development with high volume potential.
- b. Involve initial high dollar volume with follow-on potential.
- c. Be located in a high unemployment or labor surplus area.
- d. Involve a new product item with substantial growth potential.
- e. Involve a non-traditional hi-tech item with proprietary/commercial potential.
- f. Contribute to overall development of the firm. [Ref. 29]

The Coast Guard broadened this list of criteria by adding construction projects which were fairly common in its list of potential requirements. In his letter to field units,

the Commandant identified the focus of Coast Guard participation in the program.

The primary thrust of this program is to identify, over a two-year period, large (\$1M and above), high technology and construction requirements that can be performed by 8(a) firms. These technically sophisticated, high volume, and long term contracts will accelerate the development of the 8(a) firms which are selected for these awards.
[Ref. 30]

It is these objectives and criteria which the researcher used as a basis for evaluating the effectiveness of Coast Guard participation in the pilot program. The method of evaluation is described in the next chapter.

V. CRITERIA FOR EVALUATION

To properly evaluate the effectiveness of Coast Guard participation in the pilot program, the researcher established a subjective grading criterion for pilot program procurements. A numerical grade was assigned by the researcher based upon input provided by contracting officers for each of the contracts awarded during the implementation period.

A. INDIVIDUAL CATEGORIES AND SCORING

Each of the five categories listed was rated on a scale from 1 to 10, 2 being an extremely low rating and 10 being an extremely high rating.

1. Was the contract completed or is it progressing satisfactorily? The contracting officer was asked about the overall contract completion or progress toward completion absent any Coast Guard initiated changes. This category evaluated the contractor's overall ability to meet schedule deadlines.
2. Did the contractor understand the objectives of the program? The contractor was evaluated with regard to understanding of the written objectives of the pilot program. The extremes ranged from the contractor being properly motivated toward achieving these objectives versus a more narrow motive such as increasing cashflow.
3. How would you rate the contractor's technical performance? The contracting officer evaluated the performance of the contractor with regard to the firm's capacity to handle the technical aspects of the contract. In some cases the contractor had sufficient in-house capability to immediately tackle the requirements of the contract. In other cases

considerable outside expertise had to be subcontracted or in one case a joint venture established.

4. How would you rate the contractor's management performance? The contracting officer evaluated the performance of the contractor with regard to management of financial and administrative aspects of the contract. In some cases the contractor efficiently handled requisite administrative matters with the SBA, Coast Guard and outside financial institutions and began work immediately. In other cases, considerable preliminary matters such as requesting Business Development Expense or bonding interfered with commencing work.
5. Did the contract further the development of the firm? The contracting officer evaluated the contractor's potential for success in future 8(a) contracts as well as after graduation from the 8(a) program. This category was a measure of the contractor's potential ability to compete in the business world as a result of participation in the pilot program.

B. OVERALL SCORE

After each category was rated for a pilot contract, the researcher computed an overall score for the contractor using an equally weighted average of all five categories. The researcher then computed an overall score for the entire pilot program using an average of all the contracts rated.

The researcher proposed that an overall score of 5 corresponds to average effectiveness of Coast Guard participation in the program. Scores of less than or higher than 5 indicate lesser or greater degrees of effectiveness. Chapter VI provides the actual data obtained using this method of evaluation.

VI. DATA

This chapter provides the data which were gathered as a result of Coast Guard participation in the DOT pilot program. There were seven procurements which were mutually accepted by the Coast Guard and SBA for implementation under the pilot program. Contracts were awarded and performance commenced in five cases.

The data are presented by summarizing the highlights of each procurement including noteworthy strengths or weaknesses. Following these summaries, Table 3 provides the numerical scores assigned to each procurement and the overall totals. The name of the 8(a) firm and its home office location are listed at the beginning of each section. Reference numbers pertain to the entire section.

A. SIX CARPENTERS--NEW HAVEN, CONNECTICUT [REF. 31]

This contract called for the construction of a medical care facility at the Otis National Guard Base, Cape Cod, Massachusetts. A Coast Guard air station and family housing complex are located at this base. The contract was awarded on 26 September 1984 to be completed in December of 1985 at a cost of \$3.491 million. The contract initially proceeded in a satisfactory manner. However, approximately 10 months after award, the contractor experienced serious financial difficulties.

In December of 1985, the contractor requested an extension of the completion date due to change orders issued by the Coast Guard. This extension was denied due to insufficient reasons cited by the contractor. On two occasions during contract performance the Internal Revenue Service issue levies against the contractor, but these were withdrawn with SBA intervention. In January of 1986, subcontractors walked off the job due to non-payment. The Coast Guard issued several show-cause letters during 1986. The contractor was able to satisfactorily respond to these letters with the assistance of Aetna Insurance Company, bonding underwriters for Six Carpenters.

On 15 July 1986, the contractor submitted a claim in the amount of \$698,296 for extended performance costs. This claim was forwarded to the Defense Contract Audit Agency for audit. Since then, the contractor moved from its New Haven office with no forwarding address. The contract remains incomplete with approximately 90 percent of the work finished.

The contracting officer was about to turn this contract over to a new RMLC due to the current Coast Guard realignment process. She expressed little regret in being relieved of the Six Carpenters contract. She felt that the contractor's technical performance was satisfactory, but poor management severely hampered the contract. She also

felt this pilot procurement contributed little to the firm's overall development.

B. GEMINI CORPORATION--CLIFTON, NEW JERSEY [REF. 32]

This contract involved the rehabilitation of a 500 occupant barracks at the Coast Guard Training Center, Cape May, New Jersey. The work involved surgically removing the center core of the barracks and replacing it with a new support structure. The old support structure could not safely handle the building's live load. The contract was issued in two phases. Phase I involved the demolition portion of the work at a cost of \$463,000. Phase II involved the construction of the new support structure at a cost of \$432,000.

Gemini Construction Corporation was awarded a firm fixed price contract for both phases on 9 January 1986. Contract performance proceeded smoothly with the SBA issuing bonds to underwrite this project in February of 1986. At the time of this research, the contractor completed Phase I and was 90 percent finished with Phase II. Upon completion, the actual cost of the work will be \$1,000,900 due to some necessary changes to the contract.

The contracting officer felt that the contractor understood the objectives of the regular 8(a) program quite well since the firm held 8(a) status for approximately three and a half years at the time of contract award. Neither the contracting officer nor the contractor could really

distinguish between the regular 8(a) program and the pilot program beyond the high dollar criteria.

Since the principal owner held a structural engineering degree, the technical performance of the contractor impressed the contracting officer. Principal weaknesses pertained to the contractor's management performance especially with regard to dealing with subcontractors. The contracting officer predicted a successful future for Gemini Construction Corporation and felt this contract contributed to its overall development.

C. AMAF INDUSTRIES--COLUMBIA, MARYLAND [REF. 33]

The requirements of this contract called for the design, construction and maintenance of a communication control system for Coast Guard communication and radio stations. The procurement was established in three phases. Phase I included the design and development of the system at a cost of \$4,699,000. Phase II called for the construction of a first article and Phase III dealt with options for the purchase and maintenance of additional systems. The cost for Phases II and III was to be negotiated in the future. Although the requirement was identified for the pilot program, contract award for Phase I did not occur until February 1986.

The contractor immediately experienced technical performance problems. Several meetings occurred between representatives from AMAF, the Coast Guard and the SBA to

resolve these problems. Over a year after contract award, the contractor had failed to submit an acceptable quality assurance plan. Finally in early 1987, a joint venture arrangement was established with another 8(a) firm. The details of this arrangement were still underway at the time of this research.

The contracting officer felt that an enormous amount of political pressure prevented this contract from being terminated. The contractor lacked the technical expertise to handle the contract requirements and a clear understanding of the program objectives was absent. In the contracting officer's opinion, participation in the pilot program did little to develop the potential of AMAF Industries.

D. GENERAL RAILROAD EQUIPMENT AND SERVICES, INCORPORATED
(GRES)--EAST ST. LOUIS, ILLINOIS [REF. 34]

The Coast Guard required the design and manufacture of a telescoping helicopter hangar for this pilot program procurement. The hangars were to be mounted aboard 378 foot cutters currently being renovated in Seattle, Washington and Bath, Maine. These hangars feature aluminum construction and prior to the General Railroad contract, only one company in the world previously worked with this type of manufacturing process.

On 8 May 1985, General Railroad signed a letter contract with the Coast Guard calling for the design and construction

of the first hangar. This contract was later definitized at a cost of \$650,000. The projected cost for the entire project was \$6.0 million. In August of 1985 General Railroad submitted a proposal for \$11.4 million to build nine hangars. The Coast Guard found this proposal unacceptable. It soon became apparent that the contractors lacked the technical expertise in aluminum fabrication to satisfactorily complete the contract. Over a year elapsed before an acceptable quality assurance system was approved by the Coast Guard. The contractor's only previous work in a related field dealt with the construction of steel cargo containers for the U.S. Navy.

On two occasions the number of hangars was reduced to allow the contractor to concentrate on the hangar design. With time growing short, the quantity of hangars was again reduced and a separate contract established with Daf Indal, a Canadian firm with prior experience in building this type of hangar. Eventually, the contract was amended with General Railroad for the design effort only, although an acceptable design was never received.

The contracting officer expressed extreme disappointment with this contract. The contractor will eventually receive \$693,000 in exchange for negligible results. Again, in this procurement, political pressure prevented the contract from being terminated. Both the SBA and the governor of Illinois intervened to support the contractor's case. The

contracting officer believes General Railroad really did not understand the objectives of the pilot program and was primarily motivated by cashflow shortages.

E. TECHNICAL AND MANAGEMENT SERVICES CORPORATION (TAMSCO)--
BELTSVILLE, MARYLAND [REF. 35]

This pilot procurement required the development and operation of a computer-aided maintenance system for the entire Coast Guard aircraft inventory. An existing seven year contract expired about the time that the pilot program commenced creating an excellent opportunity for a pilot procurement. There were five 8(a) firms potentially identified for this contract. The contract encompassed three phases. Phase I covered a requirements analysis, Phase II dealt with the system software design and development and Phase III commenced initial operating capability.

A cost plus fixed fee (CPFF) contract was awarded for Phase I on 19 September 1985. After successful completion of Phase I, the contractor was awarded another CPFF contract for Phase II. The total cost for Phase I and II amounted to \$2.471 million. Phase III could potentially amount to another \$2 million. The contractor received \$183,000 in BDE from the SBA. The contracting officer evaluated the contractor's performance as outstanding. The firm was highly motivated, understood the objectives of the pilot program and possessed strong technical capabilities. The

contractor even incurred the extra cost of an interest rate hike which affected financing in preparation for contract performance.

The contracting officer cited two attributes on the part of the Coast Guard which aided the superior results of this contract. First, a clear, concise statement of work was produced well in advance of the contract award. Secondly the contracting officer's technical representative (COTR) provided a single point of contact for technical problems which arose. He actively pursued clear, communications with all parties involved and prevented many problems from occurring.

The contracting officer felt this contract contributed significantly to the contractor's development and predicted a successful future for the firm. As a result of this outstanding performance, the contractor was nominated for a DOT outstanding minority business award.

F. OTHER PROCUREMENTS

There were two other procurements which were identified for the pilot program. However, due to complications, one procurement is still pending and the other was awarded competitively. The first procurement involved the construction of a small boat station at Crisfield, Maryland. Due to budget constraints, the original size of the facility could not be justified by OST. Negotiations between OST and the Coast Guard resulted in the decision to build a smaller

facility. The award of a contract was still pending at the time of this research. The potential cost of this award is \$2.4 million.

The second procurement required the construction of another small boat station at Curtis Bay, Maryland. An 8(a) firm was selected to participate in this procurement. However, it could not obtain the necessary bonding required prior to contract award. In December of 1985, the Coast Guard advised the SBA it was withdrawing this requirement from the pilot program. The Coast Guard then issued an invitation for bids to award this requirement competitively. An award was made in March of 1986.

G. SCORING

Table 3 presents the researcher's assignment of scores for each pilot procurement. The five categories correspond to the descriptions provided in Chapter V. The average score column on the extreme right represents the total of the five categories divided by five. At the bottom right is the combined average for all the pilot procurements where a contract was awarded (the last two procurements described in paragraph F were not scored).

TABLE 3
PILOT PROCUREMENT SCORING

<u>Contract Name</u>	<u>Category*</u>					<u>Average Score</u>
	1	2	3	4	5	
Six Carpenters	1	2	5	1	1	2.0
Gemini Construction	9	9	10	4	8	8.0
AMAF Industries	1	1	1	3	1	1.4
General Railroad	1	1	2	4	2	2.0
TAMSCO	10	10	10	10	10	<u>10.0</u>
Combined Average						4.68

*key to numerical categories (see Chapter V for complete descriptions)

- 1--Schedule Completion
- 2--Understanding of Objectives
- 3--Technical Performance
- 4--Management Performance
- 5--Overall Development

VII. CONCLUSIONS AND RECOMMENDATIONS

With all data collected and the results tabulated, the researcher evaluated the overall effectiveness of Coast Guard participation in the DOT pilot program. There were many factors to be considered in connection with a review of the numerical scores. General conclusions concerning the DOT/SBA agreement and the future potential of the 8(a) program are included. The researcher then makes certain recommendations based upon these conclusions.

A. CONCLUSIONS

Coast Guard participation in the DOT pilot program provided a less than average overall measure of effectiveness based on the combined average of 4.68 from Table 3.

The five contracts evaluated ranged from extremely good to extremely bad. In the TAMSCO and Gemini Construction contracts the objectives of the pilot program were achieved. In the other contracts the level of achievement toward these objectives was marginal.

Unfortunately, a sample of only five contracts does not provide conclusive evidence for evaluation. The researcher believes the relatively short implementation period prevented a larger sample from being collected. This was

caused in part by the restrictive nature of pilot program requirements.

With the exception of the General Railroad contract, the pilot procurements dealt with either construction requirements or computer technology requirements. The annual availability of these types of contracts is relatively limited, especially in light of current budgetary constraints. This limited availability may be another reason for the small sample size.

The small sample size also discouraged comparisons against a control group of non-8(a) procurements or regular 8(a) procurements.

The limited effectiveness of pilot program participation was not indicative of overall support for the 8(a) program.

Coast Guard 8(a) procurements as a percentage of total Coast Guard procurement authority rose from 2.0 percent in 1982 to 6.2 percent in 1986 as computed from Tables 1 and 2. These figures indicate a growing commitment toward 8(a) procurements in the Coast Guard. Table 2 also shows the service has surpassed its 8(a) procurement goals each fiscal year since 1982.

The DOT pilot program incorporated a number of changes designed to prevent the shortcomings of the first pilot program. These included: (1) Joint selection and evaluation of contractors, (2) Established time standards for the selection of contractors, and (3) Mutually developed

procedures for interagency implementation of the pilot program.

The researcher found that there was considerably more interagency cooperation in selecting contractors for the second pilot program. The SBA relinquished much of its unilateral authority to determine which procurements would be included in the pilot program. The Coast Guard's ability to withdraw the small boat station requirements from the pilot program supports this change in operating procedures.

The overall administrative burden devoted to the pilot program was much less of a factor in the DOT's pilot program compared to the Army's experience. The lack of clear distinction between regular 8(a) procurements and 8(a) pilot procurements in the Coast Guard may have also aided this process.

In the DOT pilot program, there is evidence of a highly centralized requirements determination process. The interaction between agencies was held at the headquarters level. Little contractor selection or procurement determination activity occurred at the field level, both within the Coast Guard or the SBA. All of the pilot procurement requirements were generated by Coast Guard headquarters except for the Six Carpenters and Gemini Construction contracts, both located in the Northeast geographically close to headquarters, which supports this conclusion.

The DOT pilot program did not accomplish any meaningful changes to the 8(a) program.

It is likely the regular 8(a) program could have handled the requirements of the pilot program with similar results. The researcher questions whether the differences between pilot program procurements and regular 8(a) procurements were really stressed in implementing the pilot program, as noted in the Gemini Construction contract. As mentioned earlier, the sources and locations of the pilot procurements were concentrated at the headquarters level.

The political ramifications of the pilot program interfered with the making of sound, logical business decisions.

The researcher noted a stubborn resistance on the SBA's behalf to allow termination of marginally performing 8(a) firms. The political pressure present in the General Railroad and AMAF contracts resulted in an unnecessary expenditure of precious Coast Guard financial and personnel resources.

The pilot program attempted to unrealistically accelerate the development of 8(a) firms.

The transition of 8(a) firms into the world of high technology, large dollar contracts or major construction contracts seems to be a monumental task which few small businesses could meaningfully accomplish within the current parameters of the 8(a) program. This type of transition

would likely require special resources such as outside management and technical guidance in addition to greater amounts of financial assistance.

The researcher questions whether a minority business firm can truly achieve its full potential in an artificial environment which lacks the pressures and incentives of the commercial marketplace.

The basic premise of the 8(a) program strives to develop minority-owned business without competition. In his article for the NCMA Journal, John Magnotti, Jr. states,

In its present form, neither the pilot program nor its parent 8(a) program has much chance of attaining success until Congress, in conjunction with the majority establishment, develops workable incentive models that will lead to enthusiastic compliance by majority businesses and broad participation by minority firms. [Ref. 2:p. 65]

Currently another pilot program is underway which provides competition among 8(a) firms. This is a positive move toward creating a more realistic environment for the development of 8(a) firms.

B. RECOMMENDATIONS

1. The Coast Guard should decline participation in any further pilot programs similar to the one completed in 1985. The objectives could just as easily be accomplished through the regular 8(a) program.
2. The 8(a) program should continue to be a viable option for satisfying the wide range of procurements in the Coast Guard. Contracting officers interviewed by the researcher indicate many instances where requirements can be satisfied more quickly and at a reasonable cost using 8(a) contractors.

3. 8(a) procurement opportunities should not automatically exclude the ambitious range of requirements covered by the pilot program objectives. 8(a) firms are capable of performing high-technology or construction procurements such as the TAMSCO and Gemini Construction contracts although thorough pre-award surveys and careful planning are essential.
4. The Coast Guard should initiate a study of comparisons between 8(a) contract performance and non-8(a) contract performance. A comparison involving similar requirements and similar sample sizes may more conclusively measure the effectiveness of the 8(a) program.

APPENDIX A
PRESIDENTIAL LETTER

THE WHITE HOUSE
WASHINGTON

September 30, 1983

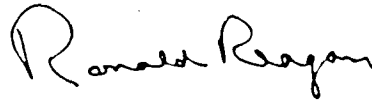
MEMORANDUM FOR: SECRETARY OF TRANSPORTATION
THE ADMINISTRATOR OF THE SMALL BUSINESS
ADMINISTRATION

As required by Public Law 98-47, which I signed into law on July 13, 1983, I am by this memorandum officially designating the Department of Transportation to participate in the Small Business Administration 8(a) Pilot Procurement Program.

The Department of Transportation is an appropriate agency with which to entrust this responsibility because of its excellent record in awarding contracts under the traditional 8(a) program. In addition, its size and the diversity of its procurement opportunities, as well as its historic pursuit of initiatives in support of small and disadvantaged business, will significantly aid in producing the results envisioned for the Pilot Program.

This program can accelerate the development of minority owned businesses by encouraging the award to such businesses of technically sophisticated, high volume, and long term contracts which are becoming an increasing portion of Federal procurement activity.

I know I can count on you to ensure the success of this important initiative in support of minority business development.



APPENDIX B

DOT/SBA INTERAGENCY AGREEMENT

INTERAGENCY AGREEMENT
BETWEEN
THE U.S. DEPARTMENT OF TRANSPORTATION
AND
THE U.S. SMALL BUSINESS ADMINISTRATION

THIS AGREEMENT, entered into this _____ day of _____, between the Department of Transportation (hereinafter referred to as DOT) and the Small Business Administration (hereinafter referred to as SBA).

WITNESSETH THAT:

WHEREAS, Section 8(a)(1)(B) of the Small Business Act, as amended, empowers the President to designate an agency for the purpose of contracting with SBA to furnish articles, equipment, supplies, services, or materials, or to perform construction work, for such agency under a 2-year pilot program.

WHEREAS, in order to facilitate the execution of contracts between DOT and SBA in implementing the provisions of Section 8(a)(1)(B), the procedures, as set forth below will be implemented upon the execution of this Agreement.

NOW THEREFORE, the parties do mutually agree as follows:

I. POLICY

A. These procedures do not affect the existing SBA/DOT Section 8(a) program wherein the DOT has been offering potential requirements to SBA for placement with subcontractors certified under Section 8(a). DOT contracting activities will continue to identify requirements matching the capabilities and needs of certified 8(a) firms, and to offer these requirements to SBA to support 8(a) firms in accordance with the applicable laws and regulations.

II. GENERAL RESPONSIBILITIES

A. It is the responsibility of the SBA under the provisions of Section 8(a)(1)(B) to identify requirements, including articles, supplies, equipment, services, materials and construction work, which are to be processed under the pilot program. SBA shall consult with DOT prior to the identification of such requirements.

B. It is the responsibility of the DOT to furnish available budgetary data, procurement planning information, forecasts and similar information which will assist the SBA in the identification of specific procurement requirements which may be processed under the pilot program. DOT and SBA anticipate that such information will be sufficient to satisfy SBA's needs in administering the pilot program.

C. The Office of Business Development, MSB/COD, will be the primary SBA office responsible for (a) identifying requirements, (b) coordinating actions with the contracting activity on placement of identified requirements, and (c) recommending such requirements for inclusion in the pilot program reservation. Representatives of that office will consult with DOT technical personnel concerning project requirements.

III. PROCEDURES

A. SBA

1. The Office of Business Development will review available budgetary data, procurement planning information, forecasts and other information identifying anticipated DOT requirements.

2. The Office of Business Development will prepare a Request for Pilot Program Reservation of selected requirements which will be communicated by the Associate Administrator for Minority Small Business, to the appropriate DOT contracting office.

3. Once SBA tentatively identifies a requirement for inclusion in the pilot program, it shall submit to DOT, as a minimum:

a. A precise identification of the requirement;

b. A complete identification of the proposed firm(s) tentatively identified to perform the procurement and their capability, including but not limited to, record of past performance, and an analysis of technical and financial capabilities;

c. The name of the contracting office responsible for the requirement or the specific installation; and,

d. The proposed assistance to be provided by SBA to the firm, including but not limited to, payment of business development expense, technical, management, and financial assistance.

4. Where the capability of an 8(a) firm requires division of a requirement, the SBA shall withdraw the requirement if requested by DOT. (This is intended to cover those procurements where splitting of requirements would result in an uneconomical production run.);

5. Within 15 working days, the chief procurement official of the DOT operating administration shall submit the requirement to SBA for inclusion in the pilot program or notify SBA in writing of the specific reasons why the tentative designation is not acceptable. Within 15 working days, SBA will either withdraw the tentative designation or request that DOT proceed to negotiate the terms and conditions with the selected 8(a) contractor. In the event of lack of agreement between the operating administration and the SBA, the procedures outlined in paragraph III C. of this agreement shall control.

6. Notwithstanding the foregoing provisions, if the Assistant Secretary for Administration (with respect to contracts of the Office of the Secretary) or the appropriate head of the DOT operating administration determines, after consultation with the SBA, that the successful performance of a specific contract is critical to the assurance of a safe transportation system and that the public health or safety could be compromised by the failure of the Department to have final authority and responsibility for selecting the contractor, the SBA shall not designate the contract for inclusion in the Pilot Program. At the request of the SBA Administrator, the Deputy Secretary of DOT will review any determination made under this paragraph.

7. SBA will provide a central repository for all information on requirements reserved under the pilot program. The SBA, Office of Business Development, will be the central repository.

8. SBA and DOT will participate in the contracting process in the same manner as provided for Section 8(a) procurements not under the pilot program, except as provided herein under "Disagreement as to Terms and Conditions".

9. SBA will provide subcontractors appropriate assistance in the resolution of problems and performance of the contract.

B. DOT

1. The DOT contracting office responsible for the procurement will provide the SBA with available budgetary data, procurement planning information, forecasts and similar information which will assist the SBA in the identification of potential pilot program requirements at the earliest practicable date.

2. The responsible contracting office, DOT, will review SBA Requests for Pilot Program Reservations and:

a. Advise SBA of requirements which have been cancelled, deferred or materially changed;

b. Provide SBA with the projected date the requirement will be available;

c. Identify the specific contracting office, if not identified or if changed from the Request for Pilot Program Reservation, together with the point of contact at the office.

3. For each identified requirement, after coordination with SBA, DOT will (except as provided herein) prepare, and send a solicitation to the 8(a) firm and receive its proposal, conduct negotiations, if required, and award contracts to SBA in accordance with provisions applicable to Section 8(a) contracts not under the pilot program, except as provided herein under "Disagreements As To Terms and Conditions". This will be performed by the Contracting Office.

4. Initiate a postaward orientation conference with the subcontractor in accordance with the provisions and objectives detailed in applicable laws and regulations.

5. Promptly notify the cognizant SBA Regional or District Office when the Section 8(a) subcontractor encounters problems which could jeopardize performance.

C. DISAGREEMENT AS TO CONTRACT TERMS AND CONDITIONS

1. When the potential 8(a) subcontractor or the DOT contracting officer determines that an impasse exists

between the parties, they shall notify the SBA Regional or District Office and the chief procurement official of the DOT operating administration. The SBA Regional or District Office will notify the Office of Business Development.

2. The SBA Office of Business Development shall seek resolution of the impasse with the chief procurement official of the DOT operating administration. If unsuccessful, the Associate Administrator/MSB&COD will advise the DOT operating administration's Associate Administrator for Administration, in writing, of the impasse and request a decision to accept the SBA position.

3. If the SBA position is not accepted by DOT, the SBA Administrator may withdraw the requirement or request a decision from the Secretary pursuant to Section 8(a)(1)(B) of the Small business Act, as amended.

4. Within 5 working days from receipt of a written request from the SBA Administrator, the Secretary shall establish the terms and conditions upon which the procurement contract may be let to SBA and communicate such terms and conditions in writing to the SBA Administrator.

5. Within 5 working days from receipt of the Secretary's decision, the SBA shall decide whether to perform such contract or to withdraw the requirement, and shall so notify the Secretary in writing.

IV. MODIFICATIONS TO THIS AGREEMENT

A. Modifications to this agreement to clarify, expand, revise or otherwise alter its terms may be negotiated between the DOT and SBA.

B. Either party may request negotiations to effect changes.

C. Until such time as modifications are formally signed by representatives of the respective agencies, the procedures as specified herein shall apply.

IN WITNESS WHEREOF, the Parties thereto have executed this agreement on the dates first herein written.

THE DEPARTMENT OF TRANSPORTATION

BY: _____
Secretary

THE SMALL BUSINESS ADMINISTRATION

BY:  _____
Administrator

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